Klaas Knot: Open finance regimes – experiences in some countries

Speech by Mr Klaas Knot, President of the Netherlands Bank, at the Bank for International Settlements High Level Roundtable on Financial Inclusion, Basel, 12 March 2024.

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Your Majesty, dear colleagues,

Let me start by saying a few words on the regulatory approach towards open finance in the Netherlands – and Europe more broadly – in my capacity as DNB President. I will come back to the work of the Financial Stability Board during the next item on the agenda that touches on international work and the role of standard setting bodies.

[Echoing the words of Her Majesty Queen Máxima], central banks and international standard setting bodies play an important role in promoting financial inclusion. While progress is being made, we must continue our efforts to make financial inclusion a reality for all. In Europe, financial services that are considered commonplace for many people are not as inclusive as one might think: around 13 million European citizens still experience financial exclusion in one way or another according to the Global Findex Database.

Our shared objective of financial inclusion is of particular relevance when responding to digital innovation in financial services. Importantly, digital and financial inclusion go hand in hand. Open finance regimes can have a positive effect on financial inclusion by fostering innovation, stimulating competition and by empowering consumers – in turn improving their financial health. At the same time, fewer physical touchpoints in the high street and increased reliance on digital services may also create tensions with consumers who are not digitally native. So we must make sure that we strike the right balance between promoting digital innovation and ensuring equitable access.

The European regulatory approach to open finance is evolving at pace. In June last year the European Commission proposed its framework for Financial Information Data Access – or FIDA in short. The Payments Services Directive – known as PSD2 – already required banks to create digital portals that other companies could use to access basic client data. With FIDA, this digital portal requirement is extended to the rest of the financial sector. With the explicit permission of consumers, firms should be able to access a broad spectrum of personal financial information related to personal savings, loans, insurances and pensions. With this data, financial service providers will be able to offer highly personalized financial services. For example, a bundling of separate insurance products into one package with a lower premiums or better conditions.

Data access initiatives touch on the mandate of multiple authorities. For this reason, DNB published a position paper with the Dutch Authority for Financial Markets that sets out a joint policy vision. Our main message is that policymakers should prioritize actions that enable trusted, innovation-enabling and equitable data access.

Let me briefly elaborate on these three elements:

To ensure trust, it is vital that data can only be accessed with the consent of the data owner, and that safeguards ensure that data use results in outcomes that are in the interest of data owners.

Enhancing the potential for innovation requires that sufficient volumes and varieties of data – both financial and nonfinancial – can be shared and accessed.

And ensuring equitable data access means subjecting different types of financial entities to similar rights, rules and requirements with respect to accessing data, while having the possibility to impose access restriction on entities if this would cause harmful data concentration.

While FIDA will help us reaping the benefits of data access, we also need to make sure that we mitigate potential drawbacks. In particular, there is a risk that open finance contributes to price differentiation due to personalized pricing, and the exclusion of those perceived to be high-risk. For example, people who don't give access to their data, either because they don't want to or are not able to, might face higher prices. Or, if your payments data show an unusually high number of car repairs, insurance companies may not want to offer you car insurance. In addition, citizens who have not shared their data can be affected by others who *have* shared their data. When they are automatically included in the dataset being on the other side of a financial transaction, for example, or when data of a small sample of consumers is used to derive behavioral assumptions for a certain sub-group of society.

Since the negotiations on the FIDA-proposal are still on their way, regulatory opportunities to mitigate these risks should not be left unused. For legislators this means that they should not only focus their attention on data access in the context of financial services, but also look closely at the interaction with other horizontal pieces of legislation such as the General Data Protection Regulation and the AI act. But even then, a complementary focus is needed to ensure that the outcomes of financial data use are ethical and in the interest of data owners and society overall. In this context, I would like to highlight the importance of requiring data ethics frameworks, which explain what data is used for what processes and what impacts on price differentiation and exclusion are acceptable.

To sum up, open finance frameworks offer tangible opportunities for people who have difficulty in accessing financial services, but we need to calibrate them carefully to make sure that open finance will be a force for good.

Thank you.